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## Islamic House Financing: A Critical Analysis and Comparison with Conventional Mortgage

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### Abstract


Housing is considered the basic necessity of human being and its shortage is a major problem worldwide especially in less developed countries including Pakistan. Recently the commercial banks in Pakistan have started looking for housing finance. In addition to conventional banks Islamic banks are also providing housing finance This paper is focusing on house financing needs in Pakistan and critically analyzes the existing model of Islamic housing finance (in practice) along with comparison of conventional mortgage. As per findings of this study huge potential for financing exists in local market. Current model of Islamic housing finance (in practice) is not matched with the principles of Musharaka however it suits in competing with conventional banks. The major difference (risk and reward sharing) between Islamic and conventional finance is lacking in operations of IFIs. At final pages of study a comparison of conventional housing finance and Islamic housing finance is provided which concludes that in conventional return is fixed while in Islamic return is variable taking into account value appreciation (depreciation) in addition to rentals.

**Keywords:** Housing, Returns, Islamic Housing Finance, Diminishing Musharaka

**JEL Classification:** R11, G15, G21

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